

EXHIBIT A

Item III.B.1(a)

INSURANCE AND REINSURANCE
ASSUMPTION AGREEMENT

This Assumption Agreement dated January 31, 1983, (hereinafter referred to as the "Assumption Agreement") between FIREMAN'S FUND INSURANCE COMPANY, a California corporation, ST. PAUL FIRE AND MARINE INSURANCE COMPANY, a Minnesota insurance corporation, THE AMERICAN INSURANCE COMPANY, a New Jersey insurance corporation, HARTFORD FIRE INSURANCE COMPANY, a Connecticut insurance corporation, THE HOME INSURANCE COMPANY, a New Hampshire insurance corporation and AETNA INSURANCE COMPANY, a Connecticut insurance corporation (hereinafter referred to collectively as the "Sellers"), and INSURANCE COMPANY OF NORTH AMERICA, a Pennsylvania insurance corporation (herein "INA") is executed and takes effect simultaneously with the Closing of the Purchase Agreement No. 1 and Purchase Agreement No. 2, each as amended (the "Purchase Agreements"), each dated and entered into on December 30, 1983.

1. Except as provided herein, terms used and entities referred to in this Assumption Agreement shall have the same definitions and identifications as in the Purchase Agreements.

2. In consideration of the transfer by the Total Sellers of the assets (including both ledger and non-ledger) shown on the statutory balance sheet of AFIA as of the closing date, and all other tangible assets owned directly by AFIA, or tangible assets in which AFIA has beneficial ownership, to the Purchasers, as designated by CIGNA, or any of them, INA hereby assumes as its direct obligation and agrees to pay on behalf of each Seller when payment thereof is due all insurance and reinsurance liabilities of each of the Assigning Sellers arising under or related to the business of AFIA described in Section 1.1(c)(ii) of the Purchase Agreements and included in AFIA Obligations (herein the "AFIA Liabilities") (it being understood that AFIA Liabilities do not include obligations arising as holders of Stock or liabilities for income taxes). The parties confirm and agree that, since none of the AFIA Liabilities assumed hereby by INA has been written or accepted in the name of INA through or by AFIA, none of the AFIA Liabilities as so assumed shall be subject to the provisions of Article XI of the Constitution of AFIA.

3. INA shall (1) administer and service the AFIA Liabilities including their investigation, payment, settlement, defense and the processing and collection of any reinsurance related thereto, (2) have all authority to act in the name of a Seller as may be required to perform such administration and service, and (3) bear all costs and

expenses related to the AFIA Liabilities and their administration and service. INA shall comply in such administration with commercially reasonable standards in the insurance industry and the standards prescribed by, or by practice of, any governmental authority having jurisdiction and shall be responsible for all penalties and claims in tort actions or otherwise arising from the failure or alleged failure to comply with such standards.

4. INA shall prepare, maintain and preserve indefinitely and permit the Sellers reasonable access to appropriate financial and business records, books of account and documents (including insurance and reinsurance policies and correspondence and proofs of loss, premium collection records, and records of insurance and reinsurance claims and recoveries relating thereto) relating to the AFIA Liabilities, and this Agreement related to the status of any liability or regulatory obligation the Sellers might have or come to have on account of the AFIA Liabilities. INA shall prepare and deliver to each Seller as promptly as practicable but in any event within 75 days after the end of each six month period commencing with that ending June 30, 1984, an account for such period of such Seller's AFIA Liabilities in such detail and covering such matters as the Sellers shall reasonably and timely request and shall allow each Seller at its own expense to conduct or cause auditors

of its choice to conduct an annual audit of such account and the AFIA Liabilities.

5. Each of the Sellers shall cooperate with INA in the above administration of the AFIA Liabilities taking such actions as INA shall reasonably request in writing including instituting or joining in any action or proceeding related to the AFIA Liabilities. None of the Sellers shall make any payment of any AFIA Liability without the prior written approval of INA unless under order of a court of competent jurisdiction or an appropriate action of a proper regulatory body. Each of the Sellers shall give written notice of any process or written claim served upon such Seller in connection with the AFIA Liabilities as promptly as practicable.

6. Except as otherwise specifically provided in this paragraph 6, where an insurance or reinsurance contract included in AFIA Liabilities was issued in the name of a Seller, INA will make direct payment to the insured, or will make payment on behalf of the insured to third parties, as required by such contract regardless of whether this Assumption Agreement is a reinsurance of the Seller's original liability under such contract or is a retrocession of the Seller's liability under a reinsurance agreement reinsuring the liability of another Seller under such other Seller's contract. Where the original contract was not issued in the name of a Seller, INA shall make payment to

the reinsured or retrocedent in accordance with the reinsurance contract or retrocession contract out of which the Seller's liability arises. The provisions of this paragraph shall apply in the event of the continuing solvency of the Seller and also in the event of the insolvency of the Seller where INA with the consent of the direct insured or insureds has assumed policy obligations as provided in clause (b) of the last paragraph of this paragraph 6.

In the event of the insolvency of a Seller, this reinsurance shall be payable directly to such Seller, or to its liquidator, receiver, conservator or statutory successor on the basis of the liability of such Seller without diminution because of the insolvency of such Seller or because the liquidator, receiver, conservator or statutory successor of such Seller has failed to pay all or a portion of any claim. It is agreed, however, that the liquidator, receiver, conservator or statutory successor of a Seller shall give written notice to INA of the pendency of a claim against such Seller indicating the policy or bond reinsured which claim would involve a possible liability on the part of INA within a reasonable time after such claim is filed in the conservation or liquidation proceeding or in the receivership, and that during the pendency of such claim, INA may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be

adjudicated any defense or defenses that it may deem available to such Seller or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by INA shall be chargeable, subject to the approval of the court, against such Seller as part of the expense of conservation or liquidation to the extent of the pro rata share of the benefit which may accrue to such Seller solely as a result of the defense undertaken by INA.

INA undertakes to indemnify each Seller, not only in form but in fact against the loss or liability arising out of the AFIA Liabilities.

As to all reinsurance made, ceded, renewed or otherwise becoming effective under this Assumption Agreement, the reinsurance shall be payable by INA to each Seller or to its liquidator, receiver, conservator or statutory successor, except as provided by Section 315 of the New York Insurance Law or except (a) where this Assumption Agreement specifically provides another payee of such reinsurance in the event of the insolvency of a Seller, and (b) where INA with the consent of the direct insured or insureds has assumed such policy obligations of such Seller as direct obligations of INA to the payees under such policies and in substitution for the obligations of such Seller to such payees.

7. As a condition precedent to enforcement of any rights under this Agreement by judicial proceedings, if any

dispute shall arise between any of the parties to this Agreement with reference to its interpretation or their rights under it, such dispute shall be submitted to arbitration upon the written request of any party to the dispute. Three arbitrators shall be selected by mutual agreement of all parties to the dispute. If within 30 days after request for arbitration the parties to the dispute have not agreed on the choice of all arbitrators, then the arbitrators not then agreed upon shall be selected by the Presiding Judge of the Supreme Court of New York in and for the County of New York. The arbitrators shall be disinterested retired or active executive officers of insurance or reinsurance companies authorized to transact business in the United States of America.

The arbitrators are relieved from all judicial formalities and may abstain from following strict rules of law. They shall interpret this Agreement as an honorable engagement and not merely as a legal obligation; they shall make their award with a view to the general purpose of this Agreement in a reasonable manner rather than in accordance with a literal interpretation of language. A majority decision by the arbitrators shall be final and binding on the parties to such arbitration. Judgment may be entered upon the final decision of the arbitrators in any court having jurisdiction. Each party to the arbitration shall jointly and equally bear with the other parties, the expense

of the arbiters and the arbitration. Such arbitration shall take place in New York, New York or such other location as the parties to the arbitration may agree.

8. The Assigning Sellers and INA shall without further consideration, at any time and from time to time at or after the execution and delivery of this Agreement execute and deliver all such further documents and instruments and take such other action as may be reasonably requested by any other party to this Agreement in order to effectuate the terms of this Agreement or the transactions contemplated by it. INA shall without further consideration, at any time from time to time, execute and deliver any documents or instruments or take such action as may be reasonably requested by any of the Assigning Sellers in order that appropriate recognition be given this Assumption Agreement on the statutory insurance accounting statements of such Assigning Seller.

9. All notices, requests, consent requests, instructions, approvals and other communications provided for under this Assumption Agreement shall be validly given, made, sent or served, if in writing and delivered personally or sent by telex or by registered or certified first class mail, return receipt requested, postage prepaid to the following address:

If to INA,

Insurance Company of North America
c/o CIGNA Corporation
One Logan Square
Philadelphia, Pennsylvania 19103
Attention: Corporate Secretary
Telex: 834442

If to Hartford.

Hartford Fire Insurance Company
Hartford Plaza
Hartford, Connecticut 06115
Attention: General Counsel
Telex: 99236

If to Home,

The Home Insurance Company
59 Maiden Lane
New York, New York 10038
Attention: General Counsel
Telex: 710 581 3629

If to Aetna,

Aetna Insurance Company
c/o CIGNA Corporation
One Logan Square
Philadelphia, Pennsylvania 19103
Attention: Corporate Secretary
Telex: 834442

If to Fireman's,

Fireman's Fund Insurance Company
777 San Marin Drive
Novato, California 94998
Attention: General Counsel
Telex: 910 482 9507

If to American.

The American Insurance Company
777 San Marin Drive
Novato, California 94998
Attention: General Counsel
Telex 910 482 9507

If to St. Paul.

St. Paul Fire and Marine Insurance Company
685 Washington Street
St. Paul, Minnesota
Attention: Corporate Secretary
Telex: 297082

Each party hereto may by written notice delivered to the other parties change its address for the purpose of any subsequent notice.

10. This Assumption Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York.

11. No party hereto shall assign its rights or obligations under this Agreement, in whole or in part, without the prior written consent of the other parties hereto; provided, however, that INA may assign its rights and obligations hereunder to any insurance company or companies which are subsidiaries of CIGNA and are reasonably acceptable to each of the Sellers and such assignee assumes in writing the obligations of INA hereunder; and provided, further, however, that no such assignment or assumption shall relieve INA of its obligations hereunder for which with the assignee it shall be jointly and severally liable.

12. Subject to paragraph 11 hereof, this Assumption Agreement shall be binding on and inure to the benefit of the parties hereto and their respective successors and assigns. Nothing in this Assumption Agreement, express or implied, is intended, or shall be

construed, to confer upon or give to any person, firm or corporation (other than the parties hereto and their permitted successors and assigns) any rights or remedies under or by reason of this Assumption Agreement, or any term, provision, condition, undertaking, warranty, representation, indemnity, covenant or agreement contained herein.

13. The terms, provisions and conditions of this Assumption Agreement may not be changed, modified, amended or waived in any manner except by an instrument in writing duly executed by all of the parties hereto.

14. This Assumption Agreement is entered into under the terms of the Purchase Agreements and in any situation where there is a conflict between the terms of this Assumption Agreement and the Purchase Agreements, the terms of the Purchase Agreements shall prevail.

IN WITNESS WHEREOF, the parties hereto have caused this Assumption Agreement to be executed in their respective names by their respective duly authorized officers on the date first above written.

FIREMAN'S FUND INSURANCE COMPANY

By David M. Brensten

ST. PAUL FIRE AND MARINE
INSURANCE COMPANY

By _____

THE AMERICAN INSURANCE COMPANY

By David M. Lovelace

HARTFORD FIRE INSURANCE COMPANY

By M. S. [unclear]

THE HOME INSURANCE COMPANY

By _____

AETNA INSURANCE COMPANY

By [unclear]

INSURANCE COMPANY OF NORTH
AMERICA

By [unclear]

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT

Docket No. 03-E-0106

**In the Matter of the Liquidation of
The Home Insurance Company**

AFFIDAVIT OF MICHAEL DURKIN

I, MICHAEL DURKIN, hereby depose and say:-

1. I am the head of the run-off operations of the ACE Group in Europe. As part of that responsibility, from 1993 up to the point that Home Insurance Company ("Home") was placed in liquidation, I was the principal representative on a day to day basis of Home's U.K. branch. I also am the President of AFLA.

2. I submit this Affidavit in connection with the Objections and Response of the ACE Companies to the Motion for Approval of Agreement and Compromise with AFLA Cedents (the "Motion") filed by the Liquidator of Home. The facts and information set out below are either within my own knowledge gained through my involvement with this matter, in which case they are true, or are based on information provided to me by others, in which case they are true to the best of my knowledge, information and belief.

3. I have over 23 years of experience in the insurance and reinsurance industry. After working with AIG beginning in 1981, from 1985 to the present I have been employed by the ACE Group in various capacities. I am a Chartered Certified Accountant (FCCA) and also received an MBA from City University Business School, London in 1998. My responsibilities with the ACE Group have included a wide range of experiences in a variety of areas, including the claims, administration, accounting and financial functions.

4. I understand that the particular companies within the ACE Group who are objecting to the Liquidator's Motion are Century Indemnity Company ("Century"), ACE Property and Casualty Insurance Company ("ACE P&C"), Pacific Employers Insurance Company ("PEIC"), and ACE American Reinsurance Company ("AARe") (collectively the "ACE Companies"). All of those companies are incorporated in Pennsylvania and have their principal place of business in Philadelphia.

5. Before Home was placed into rehabilitation, Home was a reinsurer of all of the ACE Companies (pursuant to various separate and unrelated contracts of reinsurance). In total, the four ACE Companies possess claims against Home (for paid losses plus reserves and incurred but not reported losses) in the amount of \$13,458,546. Broken down by individual companies, those claims are as follows:

Century	\$ 11,912,063
ACE P&C	\$ 1,288,003
PEIC	\$ 25,480
AARe	\$ 233,000
Total	\$ 13,458,546

All of these companies will be filing proofs of claim against Home in the liquidation proceedings.¹

6. The Liquidator's Motion concerns obligations assumed by Home as part of its participation in an insurance "pool" previously known as the American Foreign Insurance Association and later as AFIA. AFIA was an unincorporated entity formed in 1918 through which its members - U.S. insurance companies - carried on business outside of the U.S. The structure of the pool was that various AFIA member companies obtained licenses or authorizations to operate branches in foreign countries and carry on the business of insurance

¹ Other companies within the ACE Group also possess sizeable claims against Home that will be asserted in the liquidation proceedings.

through such branches in their own names. Regardless of which company issued a policy or contract of reinsurance in any given instance, through a series of reinsurance agreements, every risk ultimately was shared by each member of AFIA in a fixed percentage equal to its number of "units of participation" in AFIA. The AFIA members also arranged for common reinsurance that protected all members in excess of certain claim levels.

7. In connection with its participation in AFIA, Home opened a branch office in England through which it issued policies of insurance and reinsurance. Home's London office was not a separate English company or subsidiary; the results of the London office's activities were provided to the Home through its office in New York for incorporation in its own filings, which I understand would have been inspected by the New Hampshire Commissioner of Insurance as part of its regular examination and oversight of Home.

8. The merger between the Insurance Company of North America ("INA") and Connecticut General Insurance Company that created CIGNA Corporation in 1982 set in motion a series of transactions that effectuated the sale of all of the rights and interests in the AFIA business to CIGNA in 1984.² No new business was written through AFIA after that point (with the exception of business written by a CIGNA affiliate until I believe 1986 or 1987).

9. As part of the transfer of AFIA liabilities to CIGNA, Home (and other AFIA companies) entered into an Insurance and Reinsurance Assumption Agreement (the "Assumption Agreement") dated January 31, 1984 with INA (a CIGNA company) pursuant to which INA reinsured 100 percent of Home's liabilities under the insurance and reinsurance contracts it had

² That merger resulted in the situation in which CIGNA owned one member of AFIA (Aetna Insurance Company) while also competing with AFIA through CIGNA's existing affiliates, which was contrary to the governing principles of AFIA, thus leading to negotiations that resulted in CIGNA's purchase of all AFIA interests.

issued.³ A true and correct copy of the Assumption Agreement is attached as Exhibit A to this Affidavit.

10. Century became the successor to INA with respect to the Assumption Agreement (and other INA liabilities) by virtue of a corporate restructuring under Pennsylvania law. Century was acquired by the ACE Group when ACE purchased the CIGNA property and casualty companies in 1999. Thus, Century is now Home's counterparty with the respect to the Assumption Agreement.

11. Since 1984, Century (and its predecessor and affiliates) have complied fully with the financial and administrative obligations under the Assumption Agreement to handle and adjust claims by Home's AFIA cedents. In so doing, Century handled these claims without any day to day involvement of Home.

12. Century continued to fulfill its obligations with respect to the Assumption Agreement throughout the period in which Home was placed in rehabilitation. After the Court's Order of Liquidation on June 13, 2003, in close cooperation with Home's Liquidator, Century has continued to investigate and administer the claims of Home's AFIA cedents pursuant to the Assumption Agreement, but it has not made any binding determinations. The Liquidator has taken the position that Century's obligation to investigate and adjust the claims by cedents of Home's U.K. branch continues despite the insolvency of Home.

13. Notwithstanding Century's continued post-liquidation involvement with claims by Home's AFIA cedents, the Liquidator did not inform, involve, or consult with Century or any other ACE affiliate when it was negotiating and formulating the proposed agreement with certain of the AFIA cedents of which the Liquidator seeks approval in the Motion.

³ With regard to the direct insurance obligations, there was a statutory transfer in the U.K. whereby CIGNA companies were substituted for Home and the other AFIA companies. Such a transfer (or novation) did not take place with regard to the assumed treaty reinsurance operations of Home.

14. The companies that Home reinsured through AFIA (the "AFIA Cedents" referred to in the Liquidator's Motion) are not located solely in the U.K. To the contrary, those AFIA Cedents are located all over the world, including at least five companies in the U.S. I have extracted from our database a listing of AFIA Cedents, sorted by country of domicile (there are multiple cedents in the various domiciles), that are located outside the United Kingdom. That listing is attached as Exhibit B hereto.

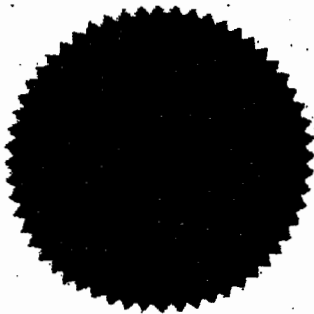
Signed under the penalties of perjury this 19th day of March 2004.

Executed at London, England
on 19th March 2004



Michael Durkin

Subscribed and sworn to me before me this 19th day of March 2004 at Maidstone, England



M J C Cooper
Notary Public
My faculty expires for so
long as I shall practice

WITHOUT PREJUDICE AND FOR SETTLEMENT PURPOSES ONLY

Equitas Limited
33 St Mary Axe
London
EC3A 8LL

22 January 2004

For Attention of: Rhydian Williams

Dear Sirs

1. ACE Group proceeds

1.1 In compromise of disputed positions respecting the non-novated AFIA reinsurance treaties underwritten by or on behalf of The Home Insurance Company ("Home") through the Home's UK Branch (the "AFIA Treaties"), we agree that, as soon as reasonably practicable following the agreement of a number of Informal Creditors' Committee members sufficient to give adequate assurance to Home that the Scheme (as defined in sub-paragraph 1.1.2 below) will be approved by the requisite majorities of AFIA Cedents (as defined in sub-paragraph 1.1.2 below), we will take the following steps:

- 1.1.1 notify members of the Informal Creditors' Committee that a sufficient number of Informal Creditors' Committee members (as described in paragraph 1.1 above) have agreed to the arrangement reflected by the proposals set out in this letter agreement by returning a signed copy of this letter agreement to us;
- 1.1.2 seek the approval of the supervising New Hampshire Court ("New Hampshire Order") to a compromise involving the implementation of a scheme of arrangement pursuant to section 425 of the Companies Act 1985 ("Scheme") between Home and cedents of Home in respect of the AFIA Treaties ("AFIA Cedents"), the main features of which are described in sub-paragraph 1.9 below, such New Hampshire Order to be on terms that it is conditional upon:
 - (1) the sanction of the English Court in respect of the Scheme;
 - (2) an order of the English Court approving the remission of the Home's assets situated in England and Wales (other than the "Net Recoveries" (as defined in sub-paragraph 1.2 below)) to the New Hampshire liquidator for administration and distribution as part of the New Hampshire liquidation ("Global Liquidation Order"); and
 - (3) the approval, or "non-objection", of the Financial Services Authority to the Scheme and to the making of the Global Liquidation Order ("FSA Approval");

■ The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member practice of Ernst & Young Global. A list of members' names is available for inspection at the above address which is the firm's principal place of business and its registered office.

1.1.3 as soon as reasonably practicable after the making of the New Hampshire Order:

- (1) make an application to the English Court for permission to convene a meeting of AFIA cedents to approve the Scheme; and
- (2) following the approval of the Scheme by the requisite majorities of AFIA Cedents, seek the sanction of the English Court in respect of the Scheme,

provided that the Scheme shall not become effective on its terms until after the making of the Global Liquidation Order and the granting of FSA Approval,

the New Hampshire Order and the Scheme to be upon such terms as may be approved by the New Hampshire Court and English Court; and

1.1.4 in order to reduce the costs of disputed claim proceedings to the Home estate, the Liquidator will recommend to the New Hampshire Court that in the resolution of reinsurance claims against Home under the AFIA Treaties, where the reinsurance contract under which the claim arises contemplates arbitration or other dispute resolution procedures with more limited discovery than that permitted under the Order Establishing Procedures Regarding Claims Filed with The Home Insurance Company in Liquidation entered by the New Hampshire Court on December 19 2003 or such amended order as appropriate ("the Claims Procedures Order"), discovery in the disputed claim proceeding (including, without limiting the generality of the foregoing, requests for documents, interrogatories, requests for admissions, or evidence depositions) shall be limited to that available under the contractually contemplated procedures.

1.2 "Net Recoveries" means 50% of the "Proceeds" (as defined in sub-paragraph 1.3 below), plus 100% of those proceeds described in sub-paragraph 1.3.5 below.

1.3 "Proceeds" means the proceeds received by Home from the ACE Group or any "Third Party Reinsurer" (as defined in sub-paragraph 1.8 below) (after deducting amounts offset between Home and either the relevant ACE Group company concerned or any "Third Party Reinsurer" (as defined in sub-paragraph 1.8 below) in relation to AFIA business and after having taken all reasonable arguments and/or defences as regards the validity of such off-set) with respect to the AFIA Treaties (whether such proceeds are derived through an ongoing resolution process with the ACE Group or any "Third Party Reinsurer" (as defined in sub-paragraph 1.8 below) or through a commutation or similar compromise arrangement with any ACE Group company or any "Third Party Reinsurer" (as defined in sub-paragraph 1.8 below) relating to that company's indemnity and/or reinsurance obligations to Home) net of:

1.3.1 the costs of the UK provisional liquidation;

1.3.2 any collection costs;

1.3.3 costs incurred in our seeking the orders of the New Hampshire and English Courts set out in sub-paragraphs 1.1.1 and 1.1.2 above (including, without prejudice to the generality of the foregoing, the costs of any legal and other professional advisors in obtaining and implementing such approvals);

1.3.4 the proceeds received by Home from the ACE Group or any "Third Party Reinsurer" (as defined in sub-paragraph 1.8 below) with respect to those inwards liabilities of

Home under the AFIA Treaties which are, or will upon final adjudication be, settled by way of offset as between Home and the relevant AFIA Cedent concerned (whether such offset right derives from contract or statute); and

- 1.3.5 the proceeds received by Home from the ACE Group or any Third Party Reinsurer with respect to Home's liability under an adverse costs order as described in sub-paragraph 1.9.7 below (which amount shall be credited direct to Net Recoveries, as provided in that sub-paragraph).
- 1.4 We also agree that during the "Standstill Period" (as defined in paragraph 1.6 below) we will not enter into a commutation or similar compromise arrangement with any ACE Group company or any "Third Party Reinsurer" (as defined in sub-paragraph 1.8 hereof) relating to that company's indemnity and/or reinsurance obligations to Home in respect of the AFIA Treaties without first:
- (1) promptly consulting with the Informal Creditors' Committee as to any such proposed commutation;
 - (2) providing all relevant documentation to the Informal Creditors' Committee at least 5 working days (where practicable) prior to such consultation (and to this end, members of the Informal Creditors' Committee shall be deemed to have requested notice and entered into a confidentiality agreement with the Liquidator pursuant to paragraph 3 of the Order Establishing Procedures for Review of Reinsurance Commutation Agreements entered by the New Hampshire Court on July 23, 2003 or any such amended order as appropriate ("the Commutations Order")). If it is not practicable for Home to comply with this 5 working days notice period, Home shall make all reasonable efforts to provide as much notice as is possible in the circumstances; and
 - (3) providing notice to the Informal Creditors' Committee in advance of any application to the supervising New Hampshire Court to approve the terms of any such proposed commutation, in accordance with the provisions of the Commutations Order.
- 1.5 You agree that:
- 1.5.1 during the Standstill Period you shall not seek to reach any agreement or arrangement with any member of the ACE Group or any "Third Party Reinsurer" (as defined in sub-paragraph 1.8 below) whereunder you receive payment from any such entity in respect of the AFIA Treaties; and
 - 1.5.2 in determining your entitlement (if any) to receive any distribution payable to you in your capacity as a creditor in Home's New Hampshire liquidation you will bring into account, and give credit for, any payments received by you pursuant to the arrangements described in this paragraph 1.

- 1.6 "Standstill Period" shall mean the period commencing upon the date on which you agree to the arrangement reflected by the proposals set out in this letter agreement by returning a signed copy of this letter agreement to us and ending on the "Standstill Termination Date" (as defined in paragraph 1.7 below).
- 1.7 "Standstill Termination Date" shall mean the earlier of:
- 1.7.1 27 February 2004, if by that date Home has not notified members of the Informal Creditors' Committee that it has determined that a sufficient number of Informal Creditors' Committee members (as described in paragraph 1.1 above) have agreed to the arrangement reflected by the proposals set out in this letter agreement by returning a signed copy of this letter agreement to us by that date;
 - 1.7.2 the date upon which the New Hampshire Court denies the New Hampshire liquidator's motion for the approval of the New Hampshire Order in substantially similar terms to those described in paragraph 1.1 above;
 - 1.7.3 the date upon which the English Court refuses to grant permission to convene a meeting of AFIA Cedents to approve the Scheme in substantially similar terms to those described in paragraph 1.1 above;
 - 1.7.4 the date upon which a majority in number representing 75% in value of the AFIA Cedents do not approve the Scheme at the meeting specially convened for this purpose (or at any adjournment thereof) in substantially similar terms to those described in paragraph 1.1 above;
 - 1.7.5 the date upon which the English Court refuses to sanction the Scheme in substantially similar terms to those described in paragraph 1.1 above;
 - 1.7.6 the date upon which the English Court refuses to make the Global Liquidation Order;
 - 1.7.7 the date upon which the Financial Services Authority notifies Home that it will not grant the FSA Approval; or
 - 1.7.8 1 June 2004 (or such other date as Home and a sufficient number of Informal Creditors' Committee members (as described in paragraph 1.1 above) shall agree from time to time), if the English Court has not by that date sanctioned the Scheme under section 425 of the Companies Act 1985 as envisaged in paragraph 1.1.2 above.
- 1.8 "Third Party Reinsurer" shall mean a reinsurer (other than an ACE Group company), which has underwritten reinsurance in relation to AFIA business directly in favour of Home as reassured.
- 1.9 It is intended that the Scheme will have the following main features:
- 1.9.1 subject to sub-paragraph 1.9.7 below, Net Recoveries will be distributed pari passu (as far as reasonably practicable) to all AFIA Cedents according to the value of their claims against Home under the AFIA Treaties as agreed or adjudicated (net of any applicable set-off) in the New Hampshire liquidation of Home;

- 1.9.2 Net Recoveries (together with all investment income and gain accruing thereon) will be held on a segregated basis by the Scheme Administrators for application in accordance with the Scheme;
- 1.9.3 a Creditors' Committee will be established with the right to be consulted by the Scheme Administrators on any transaction or litigation as between Home and any ACE Group company which is likely to have a material impact upon Net Recoveries;
- 1.9.4 Home will not enter into a commutation or similar compromise arrangement with any ACE Group company or any Third Party Reinsurer relating to that company's indemnity and/or reinsurance obligations to Home in respect of the AFIA Treaties without first:
- (1) promptly consulting with the Creditors' Committee as to any such proposed commutation;
 - (2) providing all relevant documentation to the Creditors' Committee at least 5 working days (where practicable) prior to such consultation (and to this end, members of the Creditors' Committee shall be deemed to have requested notice and entered into a confidentiality agreement with the Liquidator pursuant to paragraph 3 of the Commutations Order). If it is not practicable for Home to comply with this 5 working days notice period, Home shall make all reasonable efforts to provide as much notice as is possible in the circumstances; and
 - (3) providing notice to the Creditors' Committee in advance of any application to the supervising New Hampshire Court to approve the terms of any such proposed commutation or arrangement, in accordance with the provisions of the Commutations Order;
- 1.9.5 in the event of a commutation with the ACE Group, the Scheme Administrators will propose to AFIA Cedents a cut-off mechanism;
- 1.9.6 the costs referred to in sub-paragraph 1.3 above are to be recovered out of the Proceeds on an incurred basis; and
- 1.9.7 should a claim be denied in the Home liquidation and a disputed claim proceeding ensue, nothing in the Scheme shall preclude an AFIA Cedent, pursuant to RSA 402-C:6, from seeking an adverse cost order against Home in such proceeding, although under the Scheme the AFIA Cedent concerned will not be permitted to enforce payment by Home of any adverse cost order that may be forthcoming as an administrative expense in the Home liquidation, but shall rather be entitled to reimbursement to the extent of any cash recovered with respect thereto from an ACE Group company or from a Third Party Reinsurer, which cash recovery shall be credited directly to the Net Recoveries and shall be payable in full to the AFIA Cedent concerned from the Net Recoveries in priority to any distribution of the Net Recoveries to AFIA Cedents pursuant to paragraph 1.9.1 hereof.

2. Information

You agree that you will provide to us by 13 February 2004 sufficient information concerning your claims under the AFIA Treaties (including reasonable details of paid losses, outstanding losses and IBNR) only to enable us to make the determination referred to in paragraph 1.7.1

hereof, and we will not use that information for the purposes of agreeing claims or obtaining payment from the ACE Group or Third Party Reinsurers until the Scheme is in place or you expressly agree otherwise.

3. Proof of Claim in Home's liquidation proceeding

We acknowledge that, by providing information to us pursuant to paragraph 2 of this letter, you shall not be deemed to be submitting a proof of claim or similar formal claim against Home, either in the New Hampshire liquidation proceeding or in any English proceeding. We acknowledge that, by providing us with the said information pursuant to this letter, you thereby reserve all your rights in that regard.

4. Confidentiality and Non-Disclosure

Save as provided above, we agree that we shall not, without your prior agreement, disclose any of the information provided under paragraph 2 above to any third party (save where required so to do so by law) with the exception of (a) our legal, accounting and actuarial advisers; (b) any applicable regulator; and (c) courts of competent jurisdiction for purposes of seeking judicial approval of the arrangement proposed herein.

We furthermore reaffirm that this letter and its contents constitute "Confidential Information" within the meaning of the Confidentiality Undertaking executed by you.

5. Authorisation

The New Hampshire Insurance Commissioner, Roger A. Sevigny, in his capacity as Liquidator of Home, has approved this proposal and authorised its circulation by the provisional liquidators to members of the Informal Creditors' Committee.

6. Acceptance by Informal Creditors' Committee members

If this proposal is acceptable to you, please indicate your acceptance to its terms by signing one copy of this letter agreement where indicated below and returning such copy, duly signed, to us as soon as possible.



.....
Signed by G. H. Hughes
Joint Provisional Liquidator
for and on behalf of
The Home Insurance Company

We hereby agree to the arrangements reflected by the proposals set out in this letter agreement



.....
Signed by Equitas Limited

2-2-04

hereof, and we will not use that information for the purposes of agreeing claims or obtaining payment from the ACE Group or Third Party Reinsurers until the Scheme is in place or you expressly agree otherwise.

3. Proof of Claim in Home's liquidation proceeding

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Gareth H. Hughes

.....
Signed by G. H. Hughes
Joint Provisional Liquidator
for and on behalf of
The Home Insurance Company

We hereby agree to the arrangements reflected by the proposals set out in this letter agreement

[Signature]
.....
Signed by ~~Weavers~~ JAMES TYSON
for and on behalf of
THE BERMUDA FIRE & MARINE INSURANCE COMPANY
(IN LIQUIDATION)

22 January 2004

hereof, and we will not use that information for the purposes of agreeing claims or obtaining payment from the ACE Group or Third Party Reinsurers until the Scheme is in place or you expressly agree otherwise.

3. Proof of Claim in Home's liquidation proceeding

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Gareth Hughes

Signed by G. H. Hughes
Joint Provisional Liquidator
for and on behalf of
The Home Insurance Company

We hereby agree to the arrangements reflected by the proposals set out in this letter agreement

A. Brennan

Signed by Mentor Insurance Company (UK) Ltd

for and on behalf of

A. Brennan, Director

led consulting by its duly authorised agent

hereof, and we will not use that information for the purposes of agreeing claims or obtaining payment from the ACE Group or Third Party Reinsurers until the Scheme is in place or you expressly agree otherwise.

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6. Acceptance by Informal Creditors' Committee members

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G. H. Hughes

.....
Signed by G. H. Hughes
Joint Provisional Liquidator
for and on behalf of
The Home Insurance Company

We hereby agree to the arrangements reflected by the proposals set out in this letter agreement

[Signature]

.....
Signed by Unionamerica Insurance Company

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Gareth Hughes

.....
Signed by G. H. Hughes
Joint Provisional Liquidator
for and on behalf of
The Home Insurance Company

We hereby agree to the arrangements reflected by the proposals set out in this letter agreement

[Signature]

.....
Signed by English and America Insurance Co Ltd

hereof, and we will not use that information for the purposes of agreeing claims or obtaining payment from the ACE Group or Third Party Reinsurers until the Scheme is in place or you expressly agree otherwise.

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6. Acceptance by Informal Creditors' Committee members

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.....
Signed by G. H. Hughes
Joint Provisional Liquidator
for and on behalf of
The Home Insurance Company

We hereby agree to the arrangements reflected by the proposals set out in this letter agreement


.....
Signed by Excess Insurance Company Ltd

DAVID RUMEN
MANAGING DIRECTOR

hereof and we will not use that information for the purposes of agreeing claims or obtaining payment from the ACE Group or Third Party Reinsurers until the Scheme is in place or you expressly agree otherwise.

3. Proof of Claim in Home's liquidation proceeding

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5. Authorisation

The New Hampshire Insurance Commissioner, Rogers A. Savigny, in his capacity as liquidator of Home, has approved this proposal and authorised its circulation by the provisional liquidators to members of the Informal Creditors Committee.

6. Acceptance by Informal Creditors Committee members

If this proposal is acceptable to you, please indicate your acceptance of all terms by signing one copy of this letter agreement where indicated below and returning such copy, duly signed, to us as soon as possible.

G. H. Finches
Signed by G. H. Finches
Joint Provisional Liquidator
for and on behalf of
The Home Insurance Company

We hereby agree to the arrangements reflected by the proposals set out in this letter agreement.

Tony M. Diwiler
Signed by Continental Insurance Company New York

hereof, and we will not use that information for the purposes of agreeing claims or obtaining payment from the ACE Group or Third Party Reinsurers until the Scheme is in place or you expressly agree otherwise.

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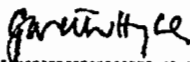
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.....
Signed by G. H. Hughes
Joint Provisional Liquidator
for and on behalf of
The Home Insurance Company

We hereby agree to the arrangements reflected by the proposals set out in this letter agreement


.....
Signed by Riverstone Management Ltd

**THE HOME
INSURANCE
COMPANY**
In Liquidation



59 Maiden Lane
New York, New York 10038

Pete Bengelsdorf
Special Deputy Liquidator
Tel (212) 530 3741
Fax (212) 530 6143
Peter.Bengelsdorf@homeinsco.com

August 6, 2004

VIA COURIER

Thomas J. Wamser, Esq.
Assistant General Counsel
ACE USA
Law Department
Routing TL35S
1601 Chestnut Street
Philadelphia, Pennsylvania 19101

**Re: The Home Insurance Company ("Home" or "HICIL") – Administration of AFIA
Business**

Dear Tom:

This letter sets out our proposals for the establishment of a protocol for the ongoing handling by Century Indemnity Company ("CIC") of claims in respect of AFIA Liabilities, as defined in an Insurance and Reinsurance Assumption Agreement dated 31 January 1984 (the "I & R Assumption Agreement") between, inter alia, HICIL and Insurance Company of North America (the predecessor of CIC) and in respect of AFIA Licence Business, as defined in a Reinsurance Treaty and Management Agreement dated 31 January 1984 (the "Treaty Management Agreement") between, inter alia, HICIL and Insurance Company of North America (the "Agreements"). Pursuant to the Agreements, CIC undertook certain management, administrative and service obligations in respect of AFIA Liabilities and AFIA Licence Business (each as defined below).

The insolvency of Home creates a number of administrative issues that need to be addressed and this letter is intended to describe the process for the continued performance by CIC of its obligations under the Agreements. The Liquidator recognizes that to the extent CIC provides or causes the provision of services beyond those required under the Agreements, CIC should receive reasonable compensation for such additional services.

In view of the foregoing, and having due regard to the New Hampshire liquidation statutes and the Claims Procedures Order (as defined below), it is desirable to put in place mechanisms and processes to ensure the due, proper, orderly and consistent handling of Claims (as defined below) by and among HICIL and CIC.

Thomas J. Wamsler, Esq.
August 6, 2004
Page 2 of 11

This letter, therefore, seeks agreement between HICIL and CIC on the above mechanisms and processes. Following such agreement, as confirmed by signature for CIC below, this letter will be presented to the Court (as defined below) for approval, upon which it will be effective. For the avoidance of doubt, except as may be subsequently agreed by CIC and Home, the terms of this letter will apply solely to paid losses that have been presented pursuant to a POC (as defined below) in the HICIL liquidation and determined in accordance with the Claims Procedures Order (as defined below) and not to any loss reserves (including reserves for losses that are incurred but not reported) that the claimants have established, except as may otherwise be required by law.

1. Definitions

In this letter, the following terms shall have the following meanings:

"ACE-INA" means ACE INA Services U.K. limited or such other agent appointed by CIC that is reasonably acceptable to HICIL;

"AFIA Liabilities" means AFIA Liabilities as defined in the I & R Assumption Agreement and the assumed liabilities of HICIL under AFIA Licence Policies as defined in the Treaty Management Agreement;

"AFIA Licence Business" has the meaning given in the Treaty Management Agreement;

"Agreements" means the I & R Assumption Agreement and the Treaty Management Agreement;

"CIC" means Century Indemnity Company, including its predecessors or successors in title;

"CIRC" means Century International Reinsurance Company, including its predecessors or successors in title;

"Claim" means an inward reinsurance claim against HICIL in respect of an AFIA Liability presented in a POC;

"Claimant" means a person submitting a Claim in the HICIL liquidation;

"Claims Procedures Order" means the order establishing procedures regarding claims entered in the HICIL liquidation made by the Court on December 19, 2003, as otherwise amended and in effect from time to time;

"Court" means the New Hampshire Superior Court for Merrimack County;

"HICIL" or "Home" means The Home Insurance Company, including its predecessors or successors in title;

"Liquidator" means the New Hampshire Insurance Commissioner, acting solely in his capacity as liquidator of HICIL appointed by the Court, the Special Deputy Liquidator and his and their agents and representatives;

"POC" means a proof of claim properly filed pursuant to N.H. RSA 402-C:37 and C:38; and

"Notice of Determination", "Notice of Disputed Claim", "Notice of Redetermination", "Objection", "Request for Review" and "Disputed Claim proceeding" have the meanings given in the Claims Procedures Order.

2. Submission, Adjustment and Adjudication of AFIA Liabilities

- 2.1 CIC shall make available such personnel as are reasonably necessary to perform effectively the management, administration and service obligations undertaken by CIC pursuant to the Agreements. HICIL agrees and confirms that, if, and to the extent that, CIC incurs costs (including internal costs) in providing services pursuant to this letter agreement that are in excess of those incurred by CIC in the fulfillment of CIC's obligations under the Agreements prior to the liquidation of HICIL, such additional costs reasonably incurred by CIC in such management, administration and/or servicing shall (and the Liquidator agrees that they shall) be chargeable by CIC to HICIL, and payable to CIC as an administration cost pursuant to N.H. RSA 402-C:44, I. CIC shall present such additional costs to the Liquidator for determination pursuant to the Claims Procedures Order and RSA 402-C:41.
- 2.2 With respect to Claims that are submitted through the filing by a claimant of a POC in the HICIL estate, HICIL shall provide CIC with a copy thereof and all supplements thereto. In the event that an amendment to the Claims Procedures Order or RSA 402-C materially alters the procedures for the determination of Claims that are submitted by the filing of a POC in the HICIL estate, either party shall have the right to terminate this letter agreement upon written notice to the other party. This provision shall not have and shall not be construed to have any effect on the parties' obligations under the Agreements.
- 2.3 Upon receipt of the POC, CIC (through ACE-INA) shall administer and service the Claim in accordance with the relevant Agreement. HICIL shall determine the order in which Claims are to be administered and serviced. HICIL shall defend and hold harmless CIC (and ACE-INA) against any action or proceeding brought by a Claimant arising from CIC's (or ACE-INA's) compliance with HICIL's determination as to the order in which Claims are to be administered and serviced. Following adjustment of a Claim, CIC (through ACE-INA) shall, within ten (10) business days and in writing, notify HICIL of its recommendations with respect to the agreement or rejection, in whole or in part, of the Claim, together with the reasons for such recommendations.
- 2.4 If the Liquidator concurs with the recommendations of CIC, he shall issue a Notice of Determination to the relevant Claimant, with a copy to CIC. CIC shall effect remittance to HICIL in respect of the Claim to the extent allowed on the Notice of Determination in accordance with paragraphs 3.3 and 3.4.
- 2.5 If the Liquidator disagrees with the recommendations of CIC, he shall notify CIC thereof in writing, and give his reasons for so disagreeing. The Liquidator and CIC shall thereafter promptly confer to attempt mutual resolution of their disagreement. If the parties do not reach such mutual resolution within ten (10) business days, the matter shall be referred (by either party) to a single arbitrator ("Arbitrator") agreed upon by the parties.

- 2.6 Where the contract underlying the Claim at issue is not governed by English law, the Arbitrator shall be chosen from the panel of arbitrators maintained by ARIAS (US). If the parties cannot agree on the identity of the Arbitrator within five (5) business days, each party shall submit the names of three (3) candidates, each of whom shall be chosen from the panel of arbitrators maintained by ARIAS (US). Within three (3) business days of the exchange of the lists of candidates, the parties shall either agree on the Arbitrator from the six (6) candidates selected or each party shall delete two (2) of the other party's candidates and the Arbitrator shall be chosen by lot from the remaining two (2) candidates. The Arbitrator shall resolve the disagreement between the parties as to whether the Claim should be agreed or rejected, in whole or in part, on written submissions by the parties, which the parties shall be entitled to supplement with information and documentation relating to the Claim, and shall issue a ruling promptly after receiving such submissions; provided that, if the Arbitrator considers that the decision required of him cannot be made on the basis of the written submissions provided, the Arbitrator shall be entitled to call for such other submissions as he considers necessary in order for him to reach a decision.
- 2.7 Where the contract underlying the Claim at issue is governed by English law, the Arbitrator shall have the qualifications required by Rule 6.3 of the Arias (UK) Arbitration Rules, 2ed 1997. If the parties cannot agree on the identity of the Arbitrator within five (5) business days, the Arbitrator shall be chosen by the Chairman of ARIAS (UK). The Arbitrator appointed shall have the qualifications required by Rule 6.3. The parties agree that the Arbitrator is entitled and bound to resolve and determine by declaration any disagreement between the parties as to whether the Claim should be agreed or rejected, in whole or in part. The Arbitrator's award shall be based on written submissions by the parties, which the parties shall be entitled to supplement with information and documentation relating to the Claim. The Arbitrator shall issue his award promptly after receiving such submissions. If, however, the Arbitrator considers that he cannot make an award on the basis of such submissions, he shall be entitled to call for such additional submissions and information that he considers necessary in order for him to make his award. In resolving the disagreement between the parties, the Arbitrator will solely interpret the terms and conditions of the contract entered into between Home and the Claimant. The Arbitrator will apply the proper law of the contract, without regard to the law of any other legal system, in resolving the disagreement between the parties.
- 2.8 The cost of the Arbitration shall be apportioned equally between the parties. The Liquidator shall issue a Notice of Determination in accordance with the Arbitrator's ruling, and shall not, unless the ruling is subject to being vacated on a ground specified in N.H. RSA 542:8, in any proceeding before the Court take a position contrary to the Arbitrator's ruling. The Liquidator will seek approval to seal the ruling to prevent disclosure to any third party. CIC shall thereafter effect remittance to HICIL in respect of the Claim, to the extent allowed on the Notice of Determination, in accordance with paragraphs 3.3 and 3.4.
- 2.9 The parties acknowledge that, should a Claimant disagree with a Notice of Determination, the Claimant may, at its option, submit a Request for Review to the Liquidator in accordance with the Claims Procedures Order. In such event, the Liquidator

- shall promptly provide CIC with a copy of the Request for Review and within twenty (20) business days thereafter, CIC shall in writing notify HICIL of its recommendations in relation to that AFIA Liability, together with the reasons for such recommendations.
- 2.10 If the Liquidator concurs with the recommendations of CIC, he shall issue a Notice of Redetermination to the relevant Claimant consistent with those recommendations, with a copy to CIC. CIC shall effect remittance to HICIL in respect of the Claim to the extent allowed on the Notice of Redetermination in accordance with paragraphs 3.3 and 3.4
- 2.11 If the Liquidator disagrees with the recommendations of CIC, he shall notify CIC thereof in writing, and give his reasons for disagreeing. The parties shall thereafter promptly confer to attempt mutual resolution of their disagreement.
- 2.12 If the parties are unable to reach such mutual resolution within ten (10) business days, the matter shall be referred (by either party) to an Arbitrator and the provisions of paragraphs 2.5 to 2.8 inclusive shall apply; provided that in the event that the parties have, pursuant to paragraphs 2.6 or 2.7, as the case may be, already arbitrated specific issues raised in the Request for Review, the parties shall not be entitled to re-arbitrate such issues and the rulings rendered with respect thereto shall have a preclusive effect and shall be and remain binding on the parties.
- 2.13 The parties further acknowledge that, should a Claimant disagree with a Notice of Determination, the Claimant is not obliged to submit a Request for Review but may, at its option, file an Objection with the Court in accordance with the Claims Procedures Order. A Claimant that disagrees with a Notice of Redetermination may also file an Objection with the Court in accordance with the Claims Procedures Order. In either event, the Liquidator shall promptly provide CIC with a copy of the Objection so filed and shall provide CIC with a copy of the Notice of Disputed Claim sent by the Liquidation Clerk to the claimant in response to the filing of the Objection, so as to avail CIC of its right under the Agreements to interpose defenses in the ensuing Disputed Claim proceeding. If CIC elects to interpose defenses in the Disputed Claim proceeding it shall, at its own cost and expense, seek leave to so participate by filing a Motion to Participate with the Referee no later than thirty (30) days after the date of mailing to the claimant of the Notice of Disputed Claim, identifying the contract in question and stating that it has a contractual right to interpose defenses. The Liquidator agrees that CIC has the right to participate in Disputed Claims proceedings and to raise any defense or defenses available to HICIL, and shall assent to CIC's participation.
- 2.14 The Disputed Claim proceedings procedures shall be governed by New Hampshire law. Questions of contractual construction and interpretation with respect to the Disputed Claim shall be governed by applicable law in accordance with the express terms of the contract, without regard to the law of any other legal system. Where the contract is silent as to its governing law and English law may apply, the Referee shall appoint an expert (with the qualifications and in the manner provided for below) and consult with such expert to determine which law is applicable. The Referee's decision on choice of law shall be final and binding on the parties.

- 2.15 The Disputed Claim proceedings shall be conducted by the Referee, who may appoint an expert to assist the Referee. Where the law applicable to the contract is English law (or where it has been determined as above stated that the contract is to be construed in accordance with English law), the Referee shall appoint an expert (or, as applicable, retain and be assisted by the expert appointed as stated above) with knowledge of the law of insurance and reinsurance in England as well as industry custom and practice. Such expert shall be either a retired English judge or a Queen's Counsel of the English bar and, in either case, shall be a person disinterested in the subject matter of the Disputed Claim proceeding. HICIL and CIC shall attempt to jointly propose a person to be appointed as such expert by the Referee, provided that, if HICIL and CIC do not agree on a person to be jointly proposed, HICIL and CIC shall each be entitled to submit to the Referee the names of three candidates fulfilling the above requirements. The Referee shall choose the expert. The Referee may prescribe such further reasonable procedures and provisions as the Referee, in the exercise of discretion, deems appropriate to assist in the adjudication of Disputed Claims. The foregoing includes, but is not limited to, the receipt of documents and other information relating to the Disputed Claim and the taking of evidence. The expert shall issue a Report and Recommendation to the Referee after the evidence has closed whereupon the Referee shall provide a copy of the Report and Recommendation to each of the Claimant, HICIL and CIC. The Referee may use the Report and Recommendation as the Referee deems appropriate and shall attach a copy of the Report and Recommendation as an exhibit to the Referee's Report to the Court. The costs of the Referee and the expert shall be chargeable against HICIL as part of the expense of the HICIL liquidation.
- 2.16 Should CIC participate in Disputed Claim proceedings, it shall, at its own cost and expense, interpose any defense or defenses that it may deem available to HICIL, although the cost or expense so incurred shall be (and the Liquidator acknowledges and agrees that they shall be) chargeable, subject to approval by the Court, against HICIL as part of the expense of the HICIL liquidation as an administration cost pursuant to N.H. RSA 402-C:44, I, to the extent of the pro rata share of the benefit which may accrue to HICIL solely as a result of the defense undertaken by CIC and to the extent not otherwise received by CIC under paragraph 2.17.
- 2.17 The Referee shall make an award of costs in every Disputed Claim proceeding in which CIC participates involving a contract governed by English law. If an order for costs is made against CIC, CIC shall bear those costs without recourse to HICIL. If an order for costs is made against the claimant, CIC, to the extent that CIC has incurred those costs, shall (and the Liquidator acknowledges and agrees that CIC shall) be entitled to the benefit of such order, and to receive and retain payment of such costs in full without diminution or set-off of any kind whatsoever, as administration costs pursuant to N.H. RSA 402-C:44, I.
- 2.18 The Liquidator and/or HICIL and CIC shall fully cooperate with each other (including in this ACE-INA) in relation to the matters covered by this letter and in particular information relating to notices, Requests for Review and/or Objections and the defense of Claims. Once CIC has commenced administering and servicing a Claim, the Liquidator and/or HICIL shall provide CIC with a copy of any written communication between the Liquidator and/or HICIL and the Claimant concerning the Claim and shall share the

substance of any other communication between the Liquidator and/or HICIL and the Claimant concerning the Claim with CIC.

- 2.19 If a Disputed Claim proceeding results in a final determination of the relevant AFIA Liability adverse to HICIL, CIC shall effect remittance on the basis of such determination to HICIL in accordance with paragraphs 3.3 and 3.4.

3. Reports, Remittances and Inspection of Records

- 3.1 CIC (through ACE-INA) shall within ten (10) business days after the end of each three month period, provide to HICIL copies of the *brokers' forms* relating to each Claim being handled by CIC or, where the details of the Claim are not the subject of a *broker's form*, copies of the relative *cedant's form*, supplemented, where those *forms* are not adequate for the purpose, by information from CIC, disclosing, on a by-cedent basis (a) the name of the underlying insured; (b) the nature and amount of each Claim; (c) the date each Claim was presented to CIC; (e) the adjustment status of each Claim, and where a Claim is the subject of legal action, details of (i) the nature of the action; (ii) the forum in which it is being conducted; (iii) the amount at issue; and (iv) material developments (if any) in it since the previous such report; and (f) a summary of Claims adjusted in the preceding three month period indicating for each Claim (i) the amount agreed; (ii) the amount disputed; and (iii) the reason for the amount disputed; and (g) a summary of all payments made by CIC to HICIL in that three month period.
- 3.2 The reasonable costs incurred by CIC (and/or ACE-INA) in collecting and compiling the reports called for by paragraph 3.1 (including the internal and staff costs of CIC and/or ACE-INA) and of providing the same to HICIL shall (and the Liquidator agrees that they shall) be chargeable by CIC to HICIL, and payable to CIC as an administration cost pursuant to N.H. RSA 402-C:44, I. CIC will not charge HICIL for any systems enhancements necessary to produce any report required by paragraph 3.1.
- 3.3 Within thirty (30) business days after the end of each month, CIC shall (a) provide HICIL with a statement showing (i) all amounts payable by CIC to HICIL pursuant to paragraphs 2.4, 2.8, 2.10, 2.19 and 3.7 for the preceding month; (ii) the amount of funds paid by CIC with respect to such payables; and (iii) any amounts claimed in offset in accordance with paragraph 3.4 against amounts due to HICIL, together with sufficient detail and an explanation as to the basis for the asserted offset; and (b) subject to the proviso to this paragraph, effect a wire transfer to such account as may, from time to time, be designated by the Liquidator for the balance. CIC agrees and acknowledges that the Liquidator fully reserves all rights in relation to any offset asserted. CIC reserves (and the Liquidator acknowledges that CIC so reserves) all rights in respect of any payments made, including as to amount and as to the obligation of CIC to make the same; PROVIDED THAT, where the Claimant has submitted a request for Review or an Objection in respect of a Claim disputing the quantum of the Claim or elements of it, CIC shall make remittance in respect of any portions of the Claim allowed in full or agreed between CIC and the Claimant. CIC shall not be obliged to make remittance in respect of the disputed amount unless and until the relevant proceedings settle the disputed amount or it is negotiated and agreed between the claimant and CIC with the concurrence of the

Liquidator, in which event remittance will be made in such amount within thirty (30) business days after the month next following such settlement or agreement.

- 3.4 Notwithstanding anything herein to the contrary, payments to HICIL shall be net of set-off in compliance with N.H. RSA 402-C:34 or otherwise allowed by New Hampshire law.
- 3.5 CIC will not be liable to make payment in respect of any AFIA Liability unless the relevant Claim has been allowed in the HICIL liquidation. The Liquidator will consent to CIC's standing to object to the Liquidator's decision to permit a late filed Claim to receive dividends pursuant to N.H. RSA 402-C:37, II or III. Where on such objection the late filed Claim is not permitted to receive dividends pursuant to N.H. RSA 402-C:37, II or III, CIC shall be entitled to recover the amount in fact paid by it in respect of any such Claim, whether by way of deduction from subsequent payments or otherwise.
- 3.6 In the event that HICIL considers that CIC has ceased to administer and service a Claim, including failing to notify HICIL of its recommendations in accordance with paragraphs 2.3 and/or 2.9, the Liquidator shall give written notice to CIC specifying and giving details of the failure complained of and the actions that the Liquidator considers required of CIC to cure the alleged failure and requesting CIC to effect such action within twenty (20) business days from receipt by CIC of the notice. If CIC disputes that there is a failure on its part or that the steps specified in the notice are necessary and appropriate, CIC shall so advise HICIL in writing within twenty (20) business days of its receipt of the notice. If CIC considers that the notice does disclose a failure on its part, CIC shall cure the same within twenty (20) business days of its receipt of the notice.
- 3.7 If CIC fails to timely file a Motion to Participate as described in paragraph 2.13 or, having timely filed a Motion to Participate, CIC fails to participate in a Disputed Claim proceeding (CIC having previously administered and serviced the Claim and notified HICIL of its recommendations in accordance with paragraph 2.3 and, if applicable, notified HICIL of its recommendations in accordance with paragraph 2.9), the Liquidator shall not be obliged to defend the Claim and shall be entitled, at his sole discretion, to consent to the entry of judgment in relation to it. This consent will be final and binding on CIC. Should the Liquidator decide to defend the AFIA Liability notwithstanding the election of CIC to refrain from participating in the Disputed Claim proceeding or the failure of CIC to file in timely fashion a Motion to Participate therein and a determination of the relevant AFIA Liability at issue is, in the first instance, determined adverse to HICIL, the Liquidator shall not be obliged to appeal the determination. That determination will then be final and binding on CIC.
- 3.8 Upon reasonable advance notice and at all reasonable times, CIC shall confer with and place at the disposal of HICIL, either directly or through its authorized representatives, the financial and business records, books of account and documents maintained by CIC (or ACE-INA) relative to AFIA Liabilities and AFIA Licence Business. HICIL shall have the right at its own cost to inspect and copy any such records and books of account.

4. Commutations

- 4.1 CIC acknowledges that inwards reinsurance commutations involving AFIA Liabilities and AFIA Licence Business are constrained by the Claims Procedures Order. As a result, while CIC may negotiate inwards commutations with Home's AFIA cedents, CIC may consummate no commutation agreements with any such cedent absent the Liquidator's express written authority to that effect. In that regard, CIC shall advise HICIL of the details of any commutation discussions in progress and shall provide such assistance and cooperation as the Liquidator may reasonably deem necessary or expedient to assess the propriety of any commutation proposal and, where appropriate, to obtain Court approval for it.

5. Rutty Pool Business

- 5.1 CIC (through ACE-INA) shall, at the sole cost of CIC, to the extent determined through litigation, arbitration or an agreement approved by HICIL with each affected Rutty Pool member (a) administer and service the inwards liabilities of each affected Rutty Pool member, including the investigation, appraisal and adjustment of such liabilities; (b) effect timely notification to each affected Rutty Pool member and HICIL of the results of such investigation, appraisal and adjustment; and (c) pay on HICIL's behalf such unallocated loss adjustment expenses that are determined as the obligations of HICIL related to the inwards liabilities of each affected Rutty Pool member.

6. Role of ACE-INA

- 6.1 The parties acknowledge that ACE-INA is the agent of CIC. CIC undertakes that it will procure that ACE-INA will at all times perform CIC's obligations hereunder or, in the alternative, CIC will perform those obligations itself.

7. Reservation of Rights

- 7.1 Nothing in this letter shall be construed so as to prejudice, negate or otherwise interfere with the rights of HICIL under the Agreements or any other contractual arrangements involving or relating to Home's AFIA business as against any other party thereto (including their successors or assigns). In particular, but without derogating from the generality of the foregoing, the Liquidator reserves the right to assert that each or both of CIC and CIRC and/or any other person or entity having contractual obligations to indemnify HICIL with respect to Home's AFIA business are liable to indemnify HICIL thereunder.
- 7.2 Nothing in this letter shall be construed so as to prejudice, negate or otherwise interfere with the rights of CIC, CIRC or any other company within the ACE group of insurance undertakings as against HICIL whether under the Agreements or otherwise including the right to assert that neither CIC nor CIRC has any contractual obligation to indemnify HICIL with respect to AFIA Liabilities or AFIA Licence Business, and in particular, but without derogating from the generality of the foregoing: (i) if and to the extent that HICIL takes any action (or fails to take any action) the effect of which, subject to paragraph 2.8, is to undermine or interfere with defenses raised by CIC to a Claim, CIC reserves all of its rights in relation to any reinsurance or other indemnity or payment obligation (including pursuant to this letter agreement) regarding that Claim; and (ii) the payment

obligations stated in this letter agreement are predicated upon (and are not separate and independent from) a payment obligation under the Agreements and, accordingly, CIC reserves all its rights to argue that any action taken (or not taken) by HICIL and/or the Liquidator that would vitiate the payment obligation under the relevant Agreement does vitiate that obligation and such shall apply equally to vitiate the corresponding obligation under this letter agreement.

8. CIRC Reinsurance Recovery

- 8.1 Unless CIC invokes paragraph 7.2 and provided that CIC performs its obligations under this letter agreement, including without limitation paragraph 3.3 (b), HICIL agrees not to seek reinsurance recovery from CIRC.

9. No variation

No amendment, variation or supplement to this letter or the agreements contained in it shall be effective unless made in writing and signed on behalf of HICIL and CIC and approved by the Court.

10. Material Breach

In the event that either party considers that the other party has materially breached this letter agreement, the party shall give written notice to the other party specifying and giving details of the matter complained of and the actions that it considers required to cure the alleged material breach and requesting the other party to effect such action within twenty (20) business days from receipt of the notice. If the receiving party disputes that there is a material breach on its part or that the steps specified in the notice are necessary and appropriate, it shall so advise the notifying party in writing within twenty (20) business days of its receipt of the notice. If the receiving party considers that the notice does disclose a material breach on its part, it shall cure the same within twenty (20) business days of its receipt of the notice.

11. Notices

- 11.1 Any notice, consent or other communication ("notice") provided for under or given, made or served in connection with this letter shall be validly given, made or served if in writing and delivered personally or sent by registered or certified pre-paid first class post or by facsimile to the address or facsimile number (and marked for the attention of the person stated) below:

If to HICIL:

Home Insurance Company in Liquidation
59 Maiden Lane
New York, New York 10038
Attention: Jonathan Rosen
Facsimile Number: (212) 530 3100

If to CIC:

Thomas J. Wamser, Esq.
August 6, 2004
Page 11 of 11

Century Indemnity Company
c/o ACE USA
Law Department
Routing TL35S
1601 Chestnut Street
Philadelphia, Pennsylvania 19101
Attention: Thomas Wamser
Facsimile Number: (215) 640 5571

11.2 A party may by written notice, served in accordance with this paragraph, change its address for the purpose of any subsequent notice.


If CIC is in agreement with the foregoing, please have a duly authorized representative confirm same by signing and returning to me a counterpart of this letter. I appreciate your consideration and assistance.

Sincerely,



Pete Bengelsdorf
Special Deputy Liquidator

AGREED AND ACCEPTED
CENTURY INDEMNITY COMPANY

By: 
Title: Assistant General Counsel
Date: 8/10/04

MORRISON | FOERSTER

1290 AVENUE OF THE AMERICAS
NEW YORK
NEW YORK 10104-0050

TELEPHONE: 212.468.8000

FACSIMILE: 212.468.7900

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ORANGE COUNTY, SACRAMENTO,
WALNUT CREEK, CENTURY CITY
TOKYO, LONDON, BEIJING,
SHANGHAI, HONG KONG,
SINGAPORE, BRUSSELS

April 1, 2008

Writer's Direct Contact
212.468.8042
GLee@mofocom

Via E-Mail and Overnight Delivery

Home Insurance Company in Liquidation
59 Maiden Lane
New York, NY 10038

Attention: Jonathan Rosen, Esq.
Chief Operating Officer

Re: Insurance and Reinsurance Assumption Agreement, dated January 31, 1984

Dear Mr. Rosen:

This firm represents Century Indemnity Company ("CIC"). CIC is the successor to the Insurance Company of North America ("INA") and to INA's rights and obligations under the Insurance and Reinsurance Assumption Agreement, dated January 31, 1984 (the "Insurance and Reinsurance Agreement"), between and among, *inter alia*, INA and The Home Insurance Company ("Home").

CIC hereby demands arbitration against Home in accordance with Paragraph 7 of the Insurance and Reinsurance Agreement. Home has entered into an agreement (the "AFIA Agreement") with a group of cedents (the "AFIA Cedents") regarding liabilities arising under certain reinsurance issued by Home as an AFIA pool member (the "AFIA Treaties"). Among other things, the AFIA Agreement (1) improperly modifies and expands CIC's obligations under the Insurance and Reinsurance Agreement without CIC's written consent, as required under Paragraph 13; (2) interferes with CIC's administration and service of the liabilities arising under the AFIA Treaties pursuant to Paragraph 3 of the Insurance and Reinsurance Agreement; (3) constitutes a breach of the cooperation clause in Paragraph 5 of the Insurance and Reinsurance Agreement; and (4) interferes with CIC's right to investigate claims and interpose defenses pursuant to Paragraph 6 of the Insurance and Reinsurance Agreement. The AFIA Agreement also constitutes a breach of the duty of utmost good faith that Home owes to CIC.

In this arbitration, CIC will be seeking a declaration that any claim submitted pursuant to the AFIA Agreement or any scheme of arrangement implemented in accordance with the AFIA

Home Insurance Company in Liquidation

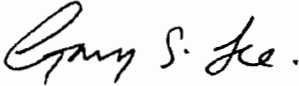
April 1, 2008

Page Two

Agreement is not reinsured by CIC. CIC will also seek other related relief from the Panel, including, but not limited to, attorneys' fees and costs.

CIC's right to proceed with this arbitration is subject to CIC's application to the Liquidation Court to lift the stay contained in the June 13, 2003 Liquidation Order and to compel Home to proceed with this arbitration. Accordingly, the parties' obligation under Paragraph 7 of the Insurance and Reinsurance Agreement to name arbitrators is suspended until such time as the Liquidation Court, or any appellate court, finally rules on CIC's motion.

Sincerely yours,



Gary S. Lee

cc: Roger A. Sevigny, as Liquidator of The Home Insurance Company
J. David Leslie, Esq.
Eric A. Smith, Esq.